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## Why Does Psychic Distance Inhibit International Buyer–Supplier Relationships?

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# **Why does psychic distance inhibit international buyer-supplier relationships?**

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## **Abstract**

In spite of technological advances and the removal or reduction of tariffs and other barriers to trade, international buyer-supplier relationships often struggle. In this conceptual paper, we examine how purchase intentions are influenced by the effects of the psychic distance between the countries where the buyer and the supplier reside. We look into the causal mechanism through which the psychic distance between the buyer and the supplier influences the extent to which the two will enter a business relationship. Two causal pathways are proposed, a more emotional pathway, through organizational identification, as predicted by the psychological distance theory, and a more rational pathway, through trust and expected relationship quality, as predicted by internationalization theory.

## **Keywords:**

Psychic Distance, Identification, Trust, Buyer-supplier relationships

### Why does psychic distance inhibit international buyer-supplier relationships?

How the distance between two firms influences international buyer-supplier relationships is an ongoing and relevant topic in international business (Håkanson & Dow, 2012). Recent decades have witnessed a significant progress in communication, such as the world-wide-web revolution, increased speed of transportation, more free-trade agreements, all of these resulting in higher volumes being traded between the different national economies. However, despite increasing globalization, it seems that the effect of distance on international purchasing has actually increased, rather than decreased. Thus, partnerships between foreign business partners continue to struggle or fail (Johnson, Lenartowicz, & Apud, 2006). One of the reasons why international buyer-supplier relationship fail is their inability to appreciate and overcome the differences between them, which stem from the different cultural contexts and development levels of the countries of residence.

The most basic measure of distance is in terms of geographic distance. This approach to measuring distance the norm when quantifying transportation and other physical costs associated with trading. Examples of such transaction costs that can be largely explained by geographic distance are gathering of information with regard to the quality of products or assessing the reliability of international transaction partners. Furthermore, Portes and Rey (2005) show that the farther away the trading partner is, the higher will be the costs of negotiations, personal interaction, costs which normally should not be associated with geographical distance. Hence, not only geographical distance diminishes the amount of products transacted by foreign partners. Countries may be distant also because economic, social, cultural, or political differences make it harder for firms build relationships. Johanson and Vahlne (1977, p. 24) have coined the term “psychic distance” as being the “the sum of factors preventing the flow of information to and from the market”. Beckerman (1956) made the first statement with regard to the negative effect

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of psychic distance by suggesting that countries that have a low psychic distance between each other have higher levels of international trade. The associations held with the country of residence of a supplier may determine how potential buyers interact with the supplier. Differences in language, religious beliefs, social norms, and development are capable of creating distance between two firms, when they are situated in different countries.

Previous research has documented the effects of various dimensions of distance within a broad range of international business issues. Håkansson and Wootz (1975) made the first empirical attempt to link physical distance with purchasing intentions in a business-to-business setting. Their results show that purchasers prefer suppliers that are more proximal. Another study that examines the link between psychic distance and international buyer-supplier relationships, Skarmeas et al. (2008), shows that psychic distance has a negative influence on the quality of importer-exporter relationships in the mature stages of the business relationships. A study by Griffith and Dimitrova (2014) shows that psychic distance is linked with satisfaction with the importer-exporter relationship; however, they take the perspective of the exporting firms in the mature stage of their business relations with importers.

The goal of our paper is to discuss the effects of the psychic distance dimensions in the context of a firm faced with the situation of choosing an international supplier. Dow and Karunaratna (2006) have shown that large differences between countries predict lower trade-flows, at the country level. In this paper we aim to provide an explanation of this finding at the micro-level of buyers confronted with the decision whether to choose a particular international supplier or not, depending on the country of residence of the supplier. Furthermore, we aim to explore the causal mechanism through which the distance between the countries of the buyer and the supplier influences the extent to which the two will enter a business relationship.

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Subjective and perceptual factors, such as subjective expectations based on own experience, decision makers' personalities, and own assessment of risk, have been shown to have an important role in international marketing and trade decisions (see Evans, Treadgold, & Mavondo, 2000). Managers rely both on objective and subjective information when making decisions related to which foreign markets they should penetrate or which international partners they should trade with. In the particular case of international buyer-supplier relationships, the quantity and quality of objective information is often rather limited due to the distance (Evans et al., 2000). The management is, therefore, faced with having to make decisions based on subjective, emotional cues. In this context it becomes relevant to determine through which causal pathway – more rational or more emotional – distance influences purchasing decisions. We use the concept of “psychological distance”, derived from the self-construal theoretical framework, to explore the less rational effects of distance. Therefore, two causal pathways are explored, a more emotional pathway, through organizational identification, as predicted by the psychological distance theory, and a more rational pathway, through trust and expected relationship quality, as predicted by theories from international business.

#### **The effect of psychic distance dimensions on buying intentions**

“The farther you are from a country, the harder it will be to conduct business in that country” (Ghemawat, 2001, p7). As predicted by the cross-cultural literature, the quality of interaction is influenced by cultural and language barriers. For example, directness in speech perceived as rudeness in Asia whereas in the United States is considered a quality (Hall & Hall,

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1990; Pornpitakpan, 2000). Stringfellow, Teagarden, and Nie (2008) coined the term “interaction distance” to incorporate the combined effects of several dimensions of distance between business partners. Therefore, interaction distance denotes the combination of invisible cost that occur when communicating with foreign partners. According to Stringfellow et al. (2008), there are three conditions which are essential for an effective interaction: a suitable communication channel, a common language, and a common system of interpreting the incoming messages. Although electronic communication is widely available, it cannot be a genuine substitute for face-to-face interaction. Media richness theory (Daft & Lengel, 1986) states that different media of communication vary along a “richness” spectrum, with face-to-face interaction at one end of the spectrum, and e-mail messages at the other end. Communication richness includes all possible interaction types, from spoken words to nonverbal cues, and the richer the communication, the more immediate is the feedback. This richness of communication is even more essential in assessing complex issues that have no a clear solution. To achieve a good level of communication richness, at least one of the international business partners would need to travel to meet the other partner in person. Not making this effort creates an obstacle in the way of rich communication between buyers and suppliers that reside in different countries. Foreign business partners imply cultural and development differences, all of which present challenges to communication, information sharing, problem-solving and, therefore, to operational effectiveness. We discuss the components that contribute to psychic distance below.

*Cultural distance.* Culture was defined in a various ways (Straub et al., 2002), one often-cited definition being “the collective programming of the mind which distinguishes the members of one group or category of people from another” (Hofstede, 1991, p.5). Although individuals from different countries have to face similar problems, they might view the solution from

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different angles. This is because people from different cultures have a different collective programming (Reus & Lamont, 2009). Extensive studies performed of national cultures show that the differences between countries are substantial, and these differences impact the way individuals interact with each other (see Reus & Lamont, 2009). Thus, a high cultural distance has the potential to complicate the communication between the workforces of buyers and suppliers that belong to different cultures.

Compared to language differences, cultural differences are usually more difficult to perceive because they are less apparent and therefore more difficult to notice. Cultural norms which often come in the form of unspoken principles, according to which individuals should behave, are in many instances almost invisible, even to the individuals that follow the principles. Because of this a high level of cultural distance is not easy to overcome can negatively affect working relationships with foreign partners. For example, Simonin (1999) shows that when cultural distance is high, there is ambiguity between international partners with regard to the knowledge they wish exchange. Conversely, when cultural distance is low, meaning that the exchange partners share common values and a similar approach to doing business, the transfer of knowledge is facilitated.

The unique characteristics of cultures have been shown to impede building and exploiting resources in distant countries (Luo, 2002). A high cultural distance induces uncertainty, making it more difficult for the firm to predict future events (Magnusson et al., 2008). Magnusson et al. (2008) posit that the effects of cultural distance on importer-exporter relationship quality are becoming increasingly negative and suggest that this may be due to cultural overconfidence. Although in recent years we witnessed a gradual integration of national economies (with the potential exception of the Brexit), it appears the global economy is still a long way from a “flat

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world” (Friedman, 2005). Because cultural differences have been linked to and increase in the difficulty of obtaining and interpreting information on foreign market conditions (Boyacigiller, 1990), managers tend to lack objective information and encounter problems in predicting the outcomes of decisions related to foreign markets and exchange partners (Achrol & Stern, 1988). The absence of good quality information about a foreign country can not only lower the firm’s ability to respond to changes in the environment in a timely manner, but it can also force managers into making mistakes, which reduces relationship satisfaction and performance (Lee, 1998). Moreover, large differences in culture have been shown to make international marketers less committed to the distant market (Goodnow & Hansz, 1972). For example, Holzmüller and Kasper (1990) show that there is a negative relationship between the perceived differences in culture and the sales to foreign markets.

*Language distance.* “All other things being equal, trade between countries that share a language will be three times greater than between countries without a common language” (Ghemawat, 2001, p. 3). Language distance has the potential to become a barrier to communication because the sender and the receiver do not share a common mother tongue. According to the literature on communication theory (i.e. Thomas, 1992), interpersonal communication can be described, on one side, by the core meaning of the message, and, on the other side, by the abstract meaning added by the manner in which the sender delivers the message to the recipient. Both of these characteristics are impacted when attempting to communicate with individuals that speak a different language, and the more dissimilar the language the higher larger the misunderstanding.

Language distance is another psychic distance dimension that has received empirical confirmation in the research community (Dow & Karunaratna, 2006). Welch, Welch, and



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Marschan-Piekkari (2001) suggest organizations tend to expand to countries that are speak the same or a similar language, as a measure of reducing risk. Therefore, language distance between national markets tends to inflate the risks of conducting business. As a result, language can be considered in an important factor that influences foreign partner selection. Even if the contact staff members from the supplier and buyer organizations speak the same language, accents can interfere with the process of receiving the message. If the sound of the words is not recognized then the content of the message cannot be processed. Many non-native speakers that carry a heavy accent may be rated as non-intelligible, therefore even in the case of using a common language, the different accents could represent an obstacle in the way of effective communication.

*Differences in religion.* Boyacigiller (1990) shows that religions are closely associated with cultures, and imply a set of attitudes and norms. Nevertheless, religion should be treated as a distinct concept relative to culture. At global level, the correlation coefficient between religious distance and cultural distance between any pair of countries is quite low,  $r = 0.17$  (Dow & Karunaratna, 2006).

Religions often represent the foundation upon which individuals draw conclusions with regard to the acceptability and desirability of behaviors. Furthermore, the differences in religion are considered one of the most important predictors of conflict between groups (Triandis, 2000). In many instances, religious metaphors are part of the daily language. Consequently, religion may play an important role in how individuals interact with each other. In conclusion, a high level of religious distance may therefore inflate transaction costs and the risk of conflict, and, at the same time, are likely to lower the probability of entering in business relationships.

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*Differences in education levels.* The education system is another factor that has the potential to influence how individuals communicate and assess information (see Dow & Karunaratna, 2006). If the differences in education levels between two countries are large, this can have negative consequences on the quality of communication between the foreign business partners, therefore increasing the perceptions of risk of misunderstandings and other types of miscommunication in the market. It is likely that organizational buyers will choose to transact with suppliers from countries that have a similar level of education as their own country of residence.

*Differences in industrial development.* Differences in industrial development were mentioned as a dimension of psychic distance by various researchers in international business (see Dow & Karunaratna, 2006). Similar to how education shapes how people communicate, how employees perform their duties at work is likely to be shaped by the economic development of their country. The type of jobs that individuals have is likely to have a role in the communication style adopted by those individuals. Furthermore, the standard of business language and interaction are likely to be affected by the industry or economic sector in which the firm operates. “For example, the communication and business norms in a subsistence agrarian economy are likely to be dramatically different from those of a highly industrialized economy with a large service sector” (Dow & Karunaratna, 2006, p. 582). These differences in industrial development imply extra risk and higher transaction costs for organizational purchasing, and thus are likely to influence the country of origin of the business partner.

*Differences in political systems.* Managers can be influenced by the differences in political systems in two distinct ways (Dow & Karunaratna, 2006). First, managing a business relationship with a partner from different country might require interacting with the government

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of that country. If the difference in political systems is large, then the costs and uncertainties brought by the interaction with the distant government are expected to be higher compared to having to deal with a government that is similar to the one in the country of origin of the buyer firm. Second, governments can interfere with importer-exporter relationships by enforcing contracts and discouraging anti-competitive behavior (Dow & Karunaratna, 2006). Therefore, if the political differences are high, the buyer firm will tend to protect itself from uncertain situations, such as anticipating how the government reacts or the foreign supplier will behave in the case of a potential intervention from their government. Both of the situations described above may drive upwards the risks and costs of transacting with a foreign supplier, and hence, have the potential to influence international supplier selection decisions.

In light of these arguments, we expect that a high psychic distance between the countries where the buyer and the supplier reside has negative consequences on the extent to which the buyer will be willing to transact with the supplier.

*Proposition 1. Perceived psychic distance to the country where the foreign supplier resides has a negative effect on the intentions to buy from the foreign supplier.*

### **The ‘rational’ causal pathway**

Previous research in international trade suggests that a broad set of distance factors have a broad set of consequences. For example, Dow and Ferencikova (2010) show that both the likelihood of foreign direct investment occurring between two countries and the performance of

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a foreign investment in the host country will be negatively related to the psychic distance dimensions of language distance, differences in religion, differences in industrial development, differences in education and differences in political systems. Numerous studies support the assumption that firms have better outcomes in foreign countries that are more similar to their home country (see Evans et al., 2000). This most common theoretical claim is that psychic distance negatively influences trade performance because distant countries are more difficult to understand, learn about and therefore the risk of misunderstandings increases (see Evans et al., 2000). In contrast, when the business partner is located in a more similar country, the level of trust increases, and therefore the chances to be enter a business relationship with a proximal supplier also increase.

The development of any relationship is affected by the perception that one business partner has of the other partner. In international business, the concept of psychic distance captures this judgment by proposing that if the characteristics of a firm's national market and those of a foreign business environment differ, this generates uncertainties among business potential business partners which may prevent the formation of business relationships with partners from distant countries. The greater the psychic distance between the foreign country and the domestic environment, the lower is likely to be the quantity and the quality of the available information about the new market. Therefore, it will be more difficult to understand the foreign environment and gather knowledge about it. This idea is supported by Eriksson, Majkgard, and Sharma (2000), who find that large differences between the home country and the foreign country makes the process of identifying and analyzing incoming information more demanding, leading to uncertainty regarding the relationship with the distant business partner. Additionally, the more divergent the environments of the two firms are, the more difficult becomes the

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communication. A low frequency of communication between buyers and suppliers is associated with low trust (Mohr & Nevin, 1990). High levels of psychic distance may make parties hesitant to transact, due to low levels of trust or a general lack of knowledge of the other's home market. Lee (1998) found that exporters' cultural distance positively affects opportunism and this is why cultural distance is negatively related to exporting performance. Conversely, for firms who perceive small differences between the countries in which they reside, in the initial stages of the relationship, perception of risk might be at low levels, similar to those encountered when transacting with domestic business partners, due to the (sometimes wrong) expectation that the foreign business partner is "just like us" (Magnusson & Boyle, 2009). Thus, it has been argued that greater psychic distance can lead to misunderstandings, hence lower trust, and lower business relationship quality (Adler 1997; Lincoln, Hanada, & Olson 1981). Consistent with this reasoning, we argue that psychic distance is negatively related to trust in the supplier, which, in turn, leads to a decreased expected relationship quality.

*Proposition 2. Perceived psychic distance to the country where the foreign supplier resides has a negative effect on the trust in the foreign supplier.*

*Proposition 3. The effect of perceived psychic distance on buying intentions from the foreign supplier is (serially) mediated by trust in the foreign supplier and by the expected quality of the relationship with the foreign supplier.*

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### **The ‘emotional’ causal pathway**

#### Psychological distance

People directly experience themselves and their immediate surroundings at the present moment. Psychologically distant objects are those that are not present in direct experience. Four dimensions of psychological distance can be distinguished: temporal distance, spatial distance, social distance, and hypotheticality – the extent to which an object is real (Trope & Liberman, 2010). The consequence of being removed from the direct exposure of an object is that information about the object becomes less available or less reliable, leading people to rely on schematic, prototypical information (Trope & Liberman, 2003). Construal level theory in consumer psychology conceptualizes spatial distance as one of the key sources of psychological distance (Trope, Liberman, & Wakslak, 2007). In a study by Henderson, Fujita, Trope, and Liberman (2006), in which spatial distance was manipulated, subjects assigned to the spatially distant experimental condition based their estimations on general trends rather than deviations from general trends. In contrast, subjects assigned to the spatially near experimental condition based their estimations equally on general trends and on the deviations from general trends. Thus, individuals tend to construe psychologically distant objects “by their essential, abstract and global features”, and psychologically closer objects “by their concrete and local features” (Fujita et al., 2006, p. 278). An association is formed between psychological distance and level of construal, and the use of more abstract construals for more distal entities may be generalized beyond the conditions that initially gave rise to the association (Trope & Liberman, 2010). This means that construals of a given entity are more abstract when the entity is psychologically

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distant compared to when the entity is psychologically near, even when the information known about the entity is identical (Fujita et al., 2006).

### The effect of distance on perceptions about the foreign supplier and buyer-supplier identification

The construal level theory implies that spatially distant (proximal) objects are represented in more abstract (concrete) manner than corresponding proximal (distant) objects (Trope & Liberman, 2010). The higher level of abstractness would, in turn, lead to a lower level of cognitive fluency (Trope & Liberman, 2010). These findings suggest that buyers would perceive countries located in spatially distant areas more abstractly and thus with less cognitive fluency, while those located in spatially proximal areas more concretely and thus with more cognitive fluency. The positive association between cognitive fluency and consumers' favorable attitudes (Lee & Labroo, 2004) further implies that purchasing managers will have more favorable attitudes toward the proximal objects than distant objects. Moreover, construal-level theory (Trope & Liberman, 2003) proposes that a large spatial distance to an object influences mental representations similar to those of having high levels on the other dimensions of psychological distance, including temporal and social distance (Fujita et al., 2006). Trope and Liberman (2010) show that the four types of psychological distance (temporal, spatial, and social distance, and hypotheticality) are cognitively associated with each other, such that imagining an entity as distant on one dimension of psychological distance is linked to thinking about the entity as distant also on the other dimensions and, therefore, the effects of the various dimensions of distances are interchangeable. A consequence of this interchangeability of psychological distance dimensions (i.e. spatial and social distances) is that more spatially distant entities are seen less similar to the self (Trope & Liberman, 2010). In the context of buyer-supplier relationships, the

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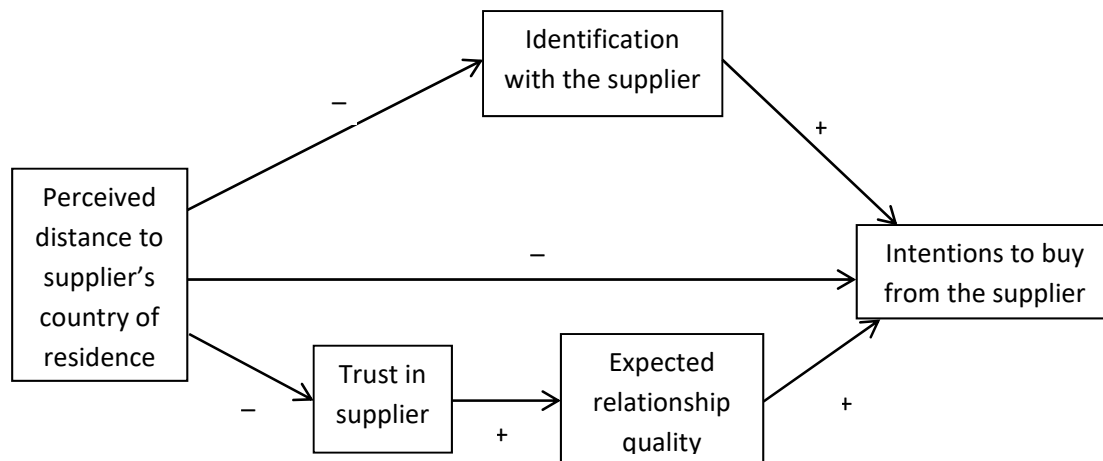
interchangeability of dimensions of psychological distance implies that a high spatial distance to the supplier firms would lead the purchasing officers to perceive a high dissimilarity between them and the suppliers. The fact that construals of a given entity are more abstract when it is psychologically distant versus near, a distant supplier (vs. a nearby supplier) would influence the mental representations of the purchasers, and doing so we distinguish two important consequences. First, the purchasers perceive the information they have on the distant supplier as less reliable, and second, they identify less with the distant suppliers. Organizational identification (which, in our context, refers to the situation where the purchasing officer and the supplier firm share the same goals and values; Efraty & Wolfe, 1988) has been found by several scholars (e.g. Keh & Xie, 2009) to be an important aspect in explaining the performance of business-to-business relationships. Previous research shows that customer-supplier identification fully mediates the effect of perceived company characteristics on both buying behavior (Ahearne, Bhattacharya, & Guen, 2005; Keh & Xie, 2009) and extra-role behaviors (Ahearne et al., 2005). Thus, a buyer's behavior seems to be influenced by the degree to which a seller's values and beliefs are in agreement with his or her value system, with further consequences in buying intentions. In conclusion, by applying the psychological distance approach to a business-to-business context, it seems likely that as distance between the potential exchange partners increases, the organizational identification would decrease, and that organizational identification acts as a mediator of the relation between distance and buying intentions.

*Proposition 4. Perceived psychic distance to the country where the foreign supplier resides has a negative effect on the identification with the supplier.*



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*Proposition 5. The effect of perceived psychic distance on buying intentions from the foreign supplier is mediated by the identification with the foreign supplier.*



**Figure 1.**  
**The proposed conceptual framework**

## **Discussion**

The goal of our paper was to investigate the effects and causal mechanism through which the psychic distance dimensions influence purchase intentions, in the context of a firm faced with the situation of choosing an international supplier. As depicted in Figure 1, we propose that the distance between the countries where the supplier and the organizational buyer reside has a negative effect on the intentions to buy from the supplier. We also propose two causal pathways – one more rational and one more emotional – through which distance influences purchasing

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decisions. Using the concept of psychological distance, derived from the self-construal theoretical framework, we propose that, in the case of the more emotional pathway, a large distance negatively influences the identification of the purchasing manager with the supplier, and, in turn, the low degree of identification decreases the purchasing intentions. The other causal pathway that we considered, more rational, uses arguments from international trade theories. We argued that trust and expected relationship quality serially mediate the effect of distance dimensions on the buyer's intentions to buy from the supplier.

Previous research has documented the effects of various distance-related constructs within a broad range of international business issue, including export market selection, international trade-flows, foreign-direct-investment flows, entry mode choice, establishment mode choice, cross-border acquisitions, adaptation in foreign markets, performance in foreign markets, use of human resource management practices, and the degree of adaptation of the marketing program. The first empirical attempt to link distance (in this case physical) with purchasing intentions in a business-to-business context was made by Håkansson and Wootz (1975). Other studies (Skarmeas et al., 2008; Griffith & Dimitrova, 2014) have also examines the link between psychic distance and international buyer-supplier relationships. However, to the best of our knowledge, no other study has explored the reasons why psychic distance influences the manner in which purchasing managers evaluate foreign suppliers before actually engaging in buying behavior. It is worth mentioning the conceptual work by Magnusson and Boyle (2009) in which they develop a contingency model that suggests that psychic distance might have opposite effects on international channel relationships, depending on the different stages of relationship development.

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By highlighting the potential mediating roles of trust, expected relationship quality, and identification with the supplier, our proposed model may provide an explanation for the finding by Dow and Karunaratna (2006) that international trade-flows are dependent on the psychic distance between countries.

Practitioners can benefit from our conceptual study in multiple ways. Our research aims at disentangling the effects of psychic distance, by suggesting an explanation for why psychic distance influences the relationships between buyers and their international suppliers. By considering multiple causal pathways (more rational and more emotional) of the effect of psychic distance on supplier selection, the purchasing managers may become aware of how they make decisions. It could be that sometimes avoiding psychically distant suppliers is a purely emotional decision, which might imply that distance should not become a supplier selection criterion by itself.

On the suppliers' part, the benefits of our study is that they will be aware of which dimensions of psychic distance matter the most and can focus their communication and distribution efforts on those markets on which they can avoid the negative consequences of psychic distance. Furthermore, knowing through which mechanisms distance affects buying decisions might give suppliers guidance on how to approach 'distant' buyers. For example, if identification would indeed play an important role in why distance has an effect, suppliers could try to foster identification with distant buyers in other ways (e.g. by demonstrating their values through initiatives aimed at societal issues).

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